

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 5791

MILITARY DEPARTMENT

Agency No. 245

July 1, 1994 Through June 30, 1996

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MILITARY DEPARTMENT
Agency No. 245
July 1, 1994 Through June 30, 1996

Overview

We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at the Military Department included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

In addition, we performed the audit of the Military Department for the fiscal year ended June 30, 1995, as part of the statewide single audit of the state as an entity. The results of this audit have been published in a statewide single audit report dated May 15, 1996. Our audit for fiscal year 1995 included procedures to express opinions on the state's general purpose financial statements and tests deemed necessary in the circumstances.

There was one finding, which is listed in the Schedule of Findings following this Overview, for the Military Department.

Brian Sonntag, CGFM
State Auditor

January 10, 1997

MILITARY DEPARTMENT
Agency No. 245
July 1, 1994 Through June 30, 1996

Schedule Of Findings

1. The Military Department Should Follow Established Procedures And Improve Accountability Over Fixed Assets

The audit of fixed assets at the Military Department disclosed the following conditions:

- a. The agency is not reconciling expenditures for fixed asset equipment in the Agency Financial Reporting System (AFRS) to the Capital Asset Management System (CAMS). The balances contained in the general fixed asset account group (GFAAG) did not include the purchases of capitalized assets totaling \$538,326. The department could not attest to the balances reflected in the GFAAG for the period ending June 30, 1996.
- b. The agency is not tagging all fixed assets immediately upon receipt, causing numerous errors. During our testing of fixed assets, only three of eleven items could be traced by asset tag number to CAMS.
- c. The agency is not conducting a physical inventory of fixed assets in a timely manner. The department has not performed a complete physical inventory in more than five years.
- d. The agency is not updating inventory records for disposal and/or surplus of equipment. There have been no disposals of equipment classified as unusable or surplus in the past five years.

The State of Washington Office of Financial Management (OFM) *Financial and Administrative Policies, Regulations, and Procedures* manual lists the following internal control and accounting requirements for fixed assets:

Section 3.2.2.1.2.b states:

A satisfactory fixed asset inventory system must include mechanisms and procedures for controlling the addition to and removal of assets from inventory as well as the safeguarding of those assets currently held.

Section 3.2.2.3.1.a states in part:

All inventoriable fixed assets . . . are to be marked immediately, upon receipt and acceptance, to identify the asset as state property.

Section 3.2.2.2.5.a states:

Physical inventories are to be conducted no less than once every two years for inventoriable fixed assets.

Section 3.2.2.2.2.a states in part:

Agencies are to adopt internal policies and procedures regarding the timely removal of fixed assets from inventory

Without proper inventory records, controls, and physical counts, the potential for loss, unauthorized use, and misappropriation increases. Without required reconciliation procedures, the ability to detect inventory accounting errors or other irregularities is decreased. Additionally, the existence of these conditions provides little assurance that the agency's fixed asset balance is fairly presented.

These conditions exist as agency management assigns higher priorities to other agency responsibilities, while the responsibility for maintaining the fixed asset function is usually secondary and performed only as time is available.

We recommend that the Military Department follow OFM policies and procedures concerning tagging, inventorying, and disposing of fixed assets. We further recommend that the agency institute procedures for reconciling fixed asset equipment expenditures as recorded in the accounting records to CAMS to ensure accountability of all inventoriable equipment.

Auditee's Response

The agency concurs heightened management attention is needed in the fixed asset program. The agency will address the resource requirements necessary to comply with the inventory requirements and will implement previously adopted procedures to complete timely reconciliation of fixed assets during the 1997 fiscal year.

Auditor's Concluding Remarks

We appreciate the department's efforts to address the problems disclosed in our finding and will review these issues in our next audit.